



Bank of Sydney

Annual Report
2006

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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
ABN 44 093 488 629**

**Annual Financial Report
31 December 2006**

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Annual Financial Report
31 December 2006

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)

Directors' report

For the year ended 31 December 2006

The directors present their report together with the financial report of Laiki Bank (Australia) Limited ("the Company") for the year ended 31 December 2006 and the auditors report thereon.

Directors

The directors of the Company at any time during or since the year ended 31 December 2006 are:

Kikis N. Lazarides Appointed 26th March 2001
Resigned 28th August 2006

During the financial year he attended 2 of the 2 directors' meetings held during the time he held office.

Marios E. Lanitis Appointed 26th March 2001
Resigned 28th August 2006

During the financial year he attended 0 of the 2 directors' meetings held during the time he held office.

Rena Rouvitha Panou Appointed 27th June 2000
Resigned 3rd November 2006

During the financial year she attended 0 of the 2 directors' meetings held during the time she held office.

Michael R. Erotokritos Appointed 26th March 2001
Resigned 28th August 2006

During the financial year he attended 2 of the 2 directors' meetings held during the time he held office.

Nicholas Pappas Appointed 26th March 2001
Appointed as Chairman on 28th August 2006

During the financial year he attended 4 of the 4 directors' meetings held during the time he held office.

Greg Gav Appointed 31st March 2005

During the financial year he attended 4 of the 4 directors' meetings held during the time he held office.

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd) Directors' report (continued) For the year ended 31 December 2006

Directors (continued)

Peter Abraam Appointed 11th September 2002

During the financial year he attended 4 of the 4 directors' meetings held during the time he held office.

Petros G Petrou Appointed 28th August 2006

During the financial year he attended 2 of the 2 directors' meetings held during the time he held office.

Michalis Louis Appointed 28th August 2006

During the financial year he attended 1 of the 2 directors' meetings held during the time he held office.

Nikolas T Hatzistergos Appointed 28th August 2006

During the financial year he attended 2 of the 2 directors' meetings held during the time he held office.

Role of the Board

The Board's primary role is to promote the success of the Company by directing and supervising the Company's affairs.

To fulfil this role, the Board is responsible for the overall corporate governance of the Company including formulating its strategic direction, approving and monitoring capital expenditure, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems.

It is also responsible for approving and monitoring financial and other reporting.

The board has delegated responsibility for operation and administration of the Company to the General Manager and executive management. Responsibilities are delineated through formal authority delegations.

Principal activities

Principal activities of the Company are the provision of general banking services.

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd) Directors' report (continued) For the year ended 31 December 2006

Results

The net profit of the Company was \$3,882,000 (2005: profit of \$3,090,000). The result included provisions for impairment of loans and advances of \$3,000 (2005: \$349,000).

Risk Management

The company's activities expose it to changes in interest rates and foreign exchange rates. It is also exposed to credit, liquidity and cash flow risks from its operations. The board has confirmed policies and procedures in each of these areas to manage these exposures.

The company has a strict credit policy for all customers on credit terms, and only deals with financial market intermediaries with an acceptable credit rating determined by a recognised rating agency.

Financial facilities and operating cash flows are managed to ensure that the company is not exposed to any adverse liquidity risks. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business.

The Company does not trade for speculative purposes.

Dividends

No dividends have been paid or declared since the start of the financial year.

The directors do not recommend payment of a dividend in respect of the financial year ended 31 December 2006, (2005: Nil).

Review of Operations

At 31 December 2006, the company's gross loan portfolio was \$589.5m (2005: \$490.1m) and its retail deposits \$605.9m (2005: \$504.8m). This represents an increase of 20.3% in loans and an increase of 20% in deposits when compared to the balances as at 31 December 2005. The Company had 132 employees at 31 December 2006 (2005: 118).

State Of Affairs

No significant changes in the state of affairs of the Company occurred during the financial year.

**Laiki Bank (Australia) Limited
Directors' report (continued)
For the year ended 31 December 2006**

Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial years.

Likely developments

The directors believe on reasonable grounds that to include in this report further information regarding likely developments in the operations of the company and the expected results of those operations in future financial years would be likely to result in unreasonable prejudice to the company.

Lead Auditors Independence Declaration

The lead auditors' independence declaration is set out on page 46 and forms part of the directors' report for the financial year ended 31 December 2006.

Indemnification and Insurance of Officers

The company has agreed to indemnify the directors and certain senior executives, against all liabilities to another person (other than the company or a related body corporate) that may arise from their position with the company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the company will meet the full amount of any such liabilities, including costs and expenses.

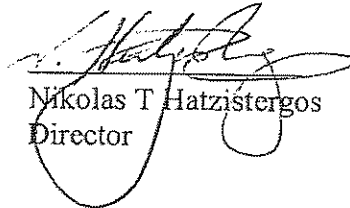
Rounding Off

The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and director's report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with the resolution of the directors:



Nicholas Pappas
Director



Nikolas T Hatzistergos
Director

Dated at Sydney this 11 day of April 2007.

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Income Statements
For the year ended 31 December 2006

| | Note | 2006 \$'000 | 2005 \$'000 |
|---|------|----------------|----------------|
| Interest income | 2 | 48,239 | 39,488 |
| Interest expense | 4 | 32,714 | 26,651 |
| Net interest income | | 15,525 | 12,837 |
| Non-interest income | 6 | 3,906 | 2,771 |
| Net operating income | | 19,431 | 15,608 |
| Operating expenses | 7 | 13,928 | 12,163 |
| Impairment losses on loans and advances | 13 | 3 | 349 |
| Profit before income tax | | 5,500 | 3,096 |
| Income tax expense | 8 | 1,618 | 6 |
| Net profit | 24 | 3,882 | 3,090 |

The Income Statements are to be read in conjunction with the notes to and forming part of the financial report set out on pages 11 to 44.

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)

Balance Sheets

As at 31 December 2006

| | Note | 2006 \$'000 | 2005 \$'000 |
|---|------|----------------|----------------|
| Assets | | | |
| Cash and liquid assets | 9 | 13,646 | 13,160 |
| Due from other financial institutions | 10 | 1,012 | 16,941 |
| Held to maturity investments | 11 | 143,685 | 118,560 |
| Loans and advances | 12 | 589,275 | 489,814 |
| Derivative assets | 14 | 1,049 | 98 |
| Intangible assets | 15 | 520 | 666 |
| Plant and equipment | 16 | 4,304 | 4,084 |
| Deferred tax assets | 17 | 386 | 236 |
| Other assets | 18 | 1,267 | 1,449 |
| Total assets | | 755,144 | 645,008 |
| Liabilities | | | |
| Due to other financial institutions | 19 | 57,905 | 65,856 |
| Deposits | 20 | 605,894 | 504,845 |
| Current tax liability | | 1,238 | 242 |
| Derivative liabilities | 14 | 270 | 49 |
| Provisions | 21 | 601 | 439 |
| Other liabilities | 22 | 5,725 | 3,948 |
| Total liabilities | | 671,633 | 575,379 |
| Net assets | | 83,511 | 69,629 |
| Equity | | | |
| Contributed equity | 23 | 80,000 | 70,000 |
| Reserves | 25 | 1,953 | - |
| Retained profits / (accumulated losses) | 24 | 1,558 | (371) |
| Total equity | | 83,511 | 69,629 |

The balance sheets are to be read in conjunction with the notes to and forming part of the financial report set out on pages 11 to 44.

CONFIDENTIAL**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)****Statements of Cash Flows****For the year ended 31 December 2006**

| | Note | 2006 \$'000 | 2005 \$'000 |
|---|-------|-----------------|----------------|
| Cash flows from operating activities | | | |
| Interest and commission receipts | | 51,415 | 42,259 |
| Interest payments | | (32,714) | (26,651) |
| Cash payments to employees and suppliers | | (12,367) | (11,227) |
| Income tax paid | | (772) | - |
| | | 5,562 | 4,381 |
| <i>(Increase) / decrease in operating assets</i> | | | |
| Investment held to maturity | | (25,125) | 2,760 |
| Loans and advances | | (99,464) | (89,143) |
| Other assets | | (111) | (505) |
| <i>(Increase) / decrease in operating liabilities</i> | | | |
| Due to other financial institutions | | (7,951) | (11,692) |
| Derivative assets/ liabilities | | - | (61) |
| Deposits | | 101,049 | 99,448 |
| Other liabilities | | 1,852 | 1,735 |
| Net cash (used in)/from operating activities | 34(b) | (24,188) | 6,923 |
| Cash flows from investing activities | | | |
| Payments for intangible assets | | (323) | (79) |
| Payments for plant & equipment | | (957) | (1,569) |
| Proceeds on disposal of plant and equipment | | 25 | 259 |
| Net cash from/(used in) investing activities | | (1,255) | (1,389) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 10,000 | - |
| Net cash provided by financing activities | | 10,000 | - |
| Net increase in cash held | | (15,443) | 5,534 |
| Cash at the beginning of the financial year | | 30,101 | 144,402 |
| AIFRS Transition adjustment | | - | (119,835) |
| Cash at the end of the financial year | 34(a) | 14,658 | 30,101 |

The statements of cash flows are to be read in conjunction with the notes to and forming part of the financial report set out on pages 11 to 44.

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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Statements of Changes in Equity
For the year ended 31 December 2006**

| | Note | 2006 \$'000 | 2005 \$'000 |
|--|------|----------------|----------------|
| Equity reconciliations | | | |
| Contributed equity | | | |
| Opening balance | | 70,000 | 70,000 |
| Shares issued during the year | | 10,000 | - |
| Closing balance | | 80,000 | 70,000 |
| Retained profit / (accumulated losses) | | | |
| Opening balance | | (371) | (5,402) |
| AIFRS transition adjustments | | - | 1,941 |
| Restated opening balance | | (371) | (3,461) |
| Net profit after income tax | | 3,882 | 3,090 |
| Amount transferred to General Reserve for Credit Losses | | (1,953) | - |
| Closing balance | | 1,558 | (371) |

The statements of changes in equity are to be read in conjunction with the notes to and forming part of the financial report set out on pages 11 to 44.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report
For the year ended 31 December 2006**

1 Summary of significant accounting policies

Laiki Bank (Australia) Limited ("the Company") is a company domiciled in Australia.

The financial report was authorised for issue by the directors on 28th March 2007.

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Banking Act, Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ("AIFRS"). The financial report of the Company also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These financial statements have been prepared in accordance with historical convention, except for derivative financial instruments, which are stated at their fair value.

The financial report is presented in Australian dollars.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006**

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Effective from 1 January 2007 is AASB 7 Financial Instruments: Disclosures, and a complementary amendment to AASB 101 Presentation of Financial Statements- Capital Disclosures. The Company expects that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures. These amendments have not been early adopted and will be applied from 1 January 2007.

(b) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months to maturity and include cash and balances with the Reserve Bank including the minimum reserve requirement that the company is obliged to place for liquidity purposes, and due from other banks.

(c) Due from other financial institutions

Due from other financial institutions comprise at call deposits and cash held with other banks and is brought to account at the gross value of the outstanding balance. Interest on receivables due from other financial institutions is recognised on an effective yield basis.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

1 Summary of significant accounting policies (continued)

(d) Financial Instruments

The Company is a financial institution that offers an extensive range of financial instruments. Financial instruments are classified and measured as follows by the Company.

Loans and advances: This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost, refer Note 1(g) for further details.

Held to maturity investments: This category includes non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Company has a positive intention and ability to hold to maturity. They are measured at amortised cost, refer Note 1(g) for further details.

Financial Liabilities: This category includes non-derivatives financial liabilities that are not classified as held for trading or designated as fair value through the profit and loss. They are measured at amortised cost and further details on the Company's accounting for financial liabilities has been included in Note 1(l).

(e) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed and determinable payments that the Company's management has the positive intention and ability to hold to maturity. Held to maturity investments are initially recognised at fair value plus any transaction costs and subsequently measured at amortised cost using the effective interest rate method as described in Note 1(c). Were the Company to sell other than an insignificant amount of held to maturity assets, the entire category would be tainted and reclassified as available for sale. This would prevent the Company from classifying investment securities as held-to-maturity for the current and the following two years.

(f) Loans and Advances

Loans and advances are initially recorded at fair value plus any transaction costs directly attributable to the acquisition or issue of the loan and are subsequently measured at amortised cost using the effective interest rate method. Impairment of a loan is recognised when objective evidence exists as described in Note 1(g).

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006**

1 Summary of significant accounting policies (continued)

(f) Loans and Advances (continued)

Loans and advances are reported net of allowances to reflect the estimated recoverable amounts, Note 1(g).

Interest income on loans and advances is recognised using the effective yield method as described in Note 1(c).

(g) Impairment

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is written down to the lower amount. The write down is recognised in the Income Statement in the reporting period in which it occurs.

Financial Assets

Financial assets, excluding derivative assets, are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Objective evidence that an individual asset of a group of these assets are impaired includes, but is not limited to, observable data from the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of the financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, etc.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006**

1 Summary of significant accounting policies (continued)

(g) Impairment (continued)

If there is objective evidence that an impairment loss on loans and advances or help to maturity investments carried at amortised costs has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the asset's recoverable amount.

The recoverable amounts of originated loans and advances and held to maturity assets are calculated as the present value of the expected future cash flows (excluding future credit losses that have not been incurred), discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

(h) Derivative instruments

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational and financing activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. As the Company has not utilised hedge accounting all derivatives are recognised at fair value through profit or loss.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are recognised at fair value. The gain or loss on remeasurement of fair value is recognised immediately in profit or loss through the income statement.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

(i) Intangible Assets

Computer Software

Software acquired by the Company is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006**

1 Summary of significant accounting policies (continued)

(i) Intangible Assets (continued)

The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Both purchased and internally generated software have a finite useful life and are amortised using the straight line method, at a rate applicable to the expected useful life of the asset, not exceeding 5 years.

The amortisation rates used are as follows:

| 2006 | 2005 |
|------|------|
| 20% | 20% |

Amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Amortisation expenses and any impairment charges are recognised in the income statement.

(j) Plant and Equipment

Items of plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Complex assets

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

Useful lives

All assets have limited useful lives and are depreciated through the income statement using the straight line method over their estimated useful lives.

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

1 Summary of significant accounting policies (continued)

(j) Plant and Equipment (continued)

Depreciation rates and methods are reviewed annually to ensure they appropriately reflect residual values and estimated useful lives. When changes are made, adjustments are reflected prospectively in current and future periods only. The depreciation rates used for each class of asset are as follows:

| | 2006 | 2005 |
|----------------------------|------|------|
| Plant and equipment | | |
| Leasehold improvements | 10% | 10% |
| Plant and equipment | 10% | 10% |
| Furniture and fittings | 10% | 10% |
| Computer hardware | 20% | 20% |

(k) Foreign currency

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the income statement in the period in which the exchange rates change.

(l) Deposits

Deposits comprise current deposits, savings deposits, at call deposits and term deposits. Deposits are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost. Interest is recognised in the income statement using the effective yield method.

(m) Taxation

The income tax expense or revenue for the period is the tax payable on the current year's taxable income based on the Australian tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and their carrying amounts in the financial statements, and to unused tax losses.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006**

1 Summary of significant accounting policies (continued)

(m) Taxation (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rate is applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

(n) Leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(o) Employee entitlements

(i) *Wages, salaries, annual leave and sick leave*

The provision for employee entitlements to wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided up to the balance sheet date, calculated at undiscounted amounts based on expected wage and salary rates including related on-costs.

(ii) *Long service leave*

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided up to the balance sheet date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government securities at the balance sheet date which most closely match the terms of maturity of the related liabilities.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006**

1 Summary of significant accounting policies (continued)

(o) Employee entitlements (continued)

(iii) *Superannuation plan*

The Company contributes to a defined contribution superannuation plan. Contributions to the fund during the period were \$501,846 (2005: \$426,856).

(p) Financial guarantees

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at higher of this amortised amount and the present value of any expected payment (when payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

(q) Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

| | 2006 | 2005 |
|--------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| 2 Interest income | | |
| Other parties | 47,742 | 39,180 |
| Related parties | 497 | 308 |
| | <u>48,239</u> | <u>39,488</u> |

3 Average assets and interest income

The following table shows the daily average balance for each of the major categories of interest-bearing assets, the amount of interest revenue and the average interest rate (annualised).

| | 2006 | | | 2005 | | |
|--|------------------------------|--------------------|----------------------|-------------------------------|---------------------|----------------------|
| | Average Balance \$'000 | Interest \$'000 | Average Rate % | Average Balance \$' 000 | Interest \$' 000 | Average Rate % |
| Cash held with central bank | 16,947 | 793 | 4.68% | 15,135 | 559 | 3.69% |
| Due from other financial institutions | 8,839 | 551 | 6.23% | 15,402 | 890 | 5.78% |
| Investments held to maturity | 131,315 | 7,479 | 5.70% | 104,879 | 5,862 | 5.59% |
| Loans and advances | 543,772 | 39,416 | 7.25% | 450,779 | 32,177 | 7.14% |
| | <u>700,873</u> | <u>48,239</u> | <u>6.88%</u> | <u>586,195</u> | <u>39,488</u> | <u>6.74%</u> |

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

| | 2006 | 2005 |
|---------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| 4 Interest expense | | |
| Other parties | 29,211 | 22,673 |
| Related parties | 3,503 | 3,978 |
| | <u>32,714</u> | <u>26,651</u> |

5 Average liabilities and interest expense

The following table shows the daily average balance for each of the major categories of interest-bearing liabilities, the amount of interest expense and the average interest rate (annualised).

| | 2006 | | | 2005 | | |
|--|-------------------------------|---------------------|----------------------|-------------------------------|---------------------|----------------------|
| | Average Balance \$' 000 | Interest \$' 000 | Average Rate % | Average Balance \$' 000 | Interest \$' 000 | Average Rate % |
| Clients' deposits | 559,009 | 29,154 | 5.22% | 450,959 | 22,710 | 5.04% |
| Overseas financial institution deposits | 56,743 | 3,560 | 6.27% | 64,037 | 3,941 | 6.15% |
| | <u>615,752</u> | <u>32,714</u> | <u>5.31%</u> | <u>514,996</u> | <u>26,651</u> | <u>5.17%</u> |

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

| | 2006 | 2005 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| 6 | | |
| Non-interest income | | |
| Fees and commission income | 2,359 | 2,000 |
| Net foreign exchange gain | 816 | 709 |
| Unrealised gain/(loss) on derivatives | 731 | 62 |
| | <u>3,906</u> | <u>2,771</u> |
| | | |
| 7 | | |
| Operating expenses | | |
| Staff expenses | 7,802 | 6,432 |
| Computer expenses | 1,257 | 1,170 |
| Marketing expenses | 638 | 444 |
| Occupancy costs | 1,316 | 1,246 |
| Printing, stationary and postage | 315 | 276 |
| Telephone expenses | 171 | 177 |
| Depreciation of property and equipment | 702 | 631 |
| Amortisation of intangibles | 469 | 609 |
| Loss on disposal of plant and equipment | 25 | - |
| Other operating expenses | 1,233 | 1,178 |
| | <u>13,928</u> | <u>12,163</u> |

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

| | 2006 | 2005 |
|--|--------------|----------|
| | \$'000 | \$'000 |
| 8 Taxation | | |
| (a) Income tax expense | | |
| Profit before tax | 5,500 | 3,096 |
| Prima facie income tax expense calculated at 30% on net profit | 1,650 | 929 |
| Non deductible expenses | 13 | 11 |
| Increase / (Decrease) in income tax due to: | | |
| Provision for doubtful debts | - | 20 |
| Other Items | (45) | 152 |
| Recognition of previously unbooked deferred tax assets and liabilities | - | (236) |
| Income tax losses utilised, not previously brought to account | - | (870) |
| Income tax expense | <u>1,618</u> | <u>6</u> |
| Current tax expense | 1,746 | 242 |
| Deferred tax expense | (128) | (236) |
| Income tax expense | <u>1,618</u> | <u>6</u> |

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

| | 2006 | 2005 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| 9 | | |
| Cash and liquid assets | | |
| Cash at bank | 1,744 | 1,528 |
| Cash held with central bank | 11,902 | 11,632 |
| | <u>13,646</u> | <u>13,160</u> |
| 10 | | |
| Due from other financial institutions | | |
| Australia | 723 | 13,530 |
| Related parties | 175 | 2,995 |
| Other | 114 | 416 |
| | <u>1,012</u> | <u>16,941</u> |
| Maturity analysis | | |
| At Call | 1,012 | 16,941 |
| | <u>1,012</u> | <u>16,941</u> |
| 11 | | |
| Investments held to maturity | | |
| Bank Bills | 126,893 | 107,934 |
| Fixed term deposits - related parties | 16,792 | 10,626 |
| | <u>143,685</u> | <u>118,560</u> |
| Maturity analysis | | |
| Up to 1 month | 55,499 | 82,664 |
| 1 to 3 months | 49,204 | 15,867 |
| 3 to 12 months | 38,982 | 20,029 |
| | <u>143,685</u> | <u>118,560</u> |

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

| | Note | 2006 \$'000 | 2005 \$'000 |
|--------------------------|---------------------------|----------------|----------------|
| 12 | Loans and advances | | |
| Loans and advances | | 537,366 | 447,028 |
| Overdrafts | | 52,167 | 43,094 |
| Gross loans and advances | | 589,533 | 490,122 |
| Less - | | | |
| Specific provision | 13 | (258) | (308) |
| | | (258) | (308) |
| Net loans and advances | | 589,275 | 489,814 |
| Maturity analysis | | | |
| Overdrafts | | 51,793 | 43,078 |
| Up to 1 month | | 28,975 | 24,931 |
| 1 to 3 months | | 6,159 | 3,662 |
| 3 to 12 months | | 18,924 | 30,780 |
| 12 months to 5 years | | 113,795 | 51,148 |
| Over 5 years | | 369,887 | 336,523 |
| | | 589,533 | 490,122 |

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

| | 2006 | 2005 |
|---|--------|---------|
| | \$'000 | \$'000 |
| 13 Provision for impairment | | |
| (a) Provisions for impairment | | |
| General provision | | |
| Opening balance | - | 1,953 |
| IFRS transition adjustment (Note 33(b)) | - | (1,953) |
| Closing balance | - | - |
| Specific provisions | | |
| Opening balance | 308 | 242 |
| Write off against provision | (53) | (283) |
| Recoveries | (108) | - |
| Charge to operating profit | 111 | 349 |
| Closing balance | 258 | 308 |
| Total specific provision | 258 | 308 |

(b) Impaired assets

Impaired loans and advances are reviewed and classified according to the categories outlined below:

- “Non-accrual loans” are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, and hence provisions for impairment are recognised.
- “Restructured loans” arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in non-accrual loans when impairment provisions are required. The Company has no such loans at year-end.
- “Assets acquired through the enforcement of security” are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements. The Company has no such assets at year-end.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006**

13 Provision for doubtful debts and impaired assets (continued)

(b) Impaired assets (continued)

- “Past due loans” are loans where payments of principal and/or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected. If an impairment provision is required, the loan is included in non-accrual loans.

Under AASB 139, impairment losses are recognised to reduce the carrying amount of loans and advances to their estimated recoverable amounts. The company creates specific provisions for impairment when there is objective evidence that it will not be able to collect all amounts due. The amount of the impairment is the difference between the carrying amount and the recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.

Therefore, interest will continue to be accrued on impaired loans based on the revised carrying amounts and using appropriate effective interest rates. Accrued interest on impaired assets and past due loans is suspended and not recognised in the income statement until the principal outstanding is recovered or the account is no longer in arrears.

The balances of non-accrual loans and past due loans are as follows:

| | 2006 | 2005 |
|-------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Non-accrual loans | 2,449 | 308 |
| Past due loans | 7,432 | 7,723 |
| | <u>9,881</u> | <u>8,031</u> |

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006**

14 Derivative Financial Instruments

The company enters into derivative transactions which provide economic hedges for risk exposures but do not meet the accounting requirements for hedge accounting treatment.

| | 2006 | 2005 |
|---------------------------|--------------|-----------|
| | \$'000 | \$'000 |
| Assets | | |
| Interest rate swaps | 1,049 | - |
| Foreign currency forwards | - | 98 |
| | <u>1,049</u> | <u>98</u> |
| Liabilities | | |
| Interest rate swaps | - | 49 |
| Foreign currency forwards | 270 | - |
| | <u>270</u> | <u>49</u> |

The Company uses foreign currency and interest rate swaps for hedging purposes only, which are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. All counterparties of swap agreements entered into are within the Laiki Bank Group.

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

| | 2006 | 2005 |
|--------------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| 15 Intangible assets | | |
| Computer software | | |
| At cost | 3,406 | 3,084 |
| Less: Accumulated amortisation | (2,886) | (2,418) |
| | <u>520</u> | <u>666</u> |
| Opening balance | 666 | 1,196 |
| Additions | 322 | 79 |
| Amortisation expense | (468) | (609) |
| Net book value | <u>520</u> | <u>666</u> |
| 16 Plant and equipment | | |
| Plant and equipment | | |
| At cost | 2,991 | 2,741 |
| Less: Accumulated depreciation | (1,676) | (1,397) |
| | <u>1,315</u> | <u>1,344</u> |
| Leasehold | | |
| At cost | 4,313 | 3,677 |
| Less: Accumulated depreciation | (1,324) | (937) |
| | <u>2,989</u> | <u>2,740</u> |
| Net book value | <u>4,304</u> | <u>4,084</u> |

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

16 Plant and equipment (continued)

Reconciliation of the carrying values of plant and equipment and leasehold are set out below:

| | 2006 \$'000 | 2005 \$'000 |
|--------------------------------------|----------------|----------------|
| Plant and equipment at cost | | |
| Opening balance | 1,344 | 1,053 |
| Additions | 306 | 582 |
| Net book value of disposal of assets | (25) | - |
| Depreciation expense | (310) | (291) |
| | <u>1,315</u> | <u>1,344</u> |
| Leasehold at cost | | |
| Opening balance | 2,740 | 2,350 |
| Additions | 650 | 987 |
| Net book value of disposal of assets | (9) | (257) |
| Depreciation expense | (392) | (340) |
| | <u>2,989</u> | <u>2,740</u> |
| | <u>4,304</u> | <u>4,084</u> |

17 Deferred tax assets

Deferred income tax assets are attributable to the following items:

| | | |
|-------------------------------------|------------|------------|
| Provisions | 464 | 299 |
| Fair value of financial instruments | (234) | (15) |
| Fixed assets | 147 | (44) |
| Prepayments | (4) | (4) |
| Unpaid Super contribution | 13 | - |
| | <u>386</u> | <u>236</u> |

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

| | 2006 | 2005 |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| 18 Other assets | | |
| Interest receivable | 861 | 775 |
| Other | 406 | 674 |
| | <u>1,267</u> | <u>1,449</u> |
| 19 Due to other financial institutions | | |
| Australia | 2,000 | - |
| Overseas | | |
| Foreign currency loan - parent entity | 353 | 64,734 |
| Related parties | 55,552 | 1,122 |
| | <u>57,905</u> | <u>65,856</u> |
| Maturity analysis | | |
| At call | 2,451 | 1,585 |
| Up to 1 month | 15,314 | 64,271 |
| 1 to 3 month | 40,140 | - |
| | <u>57,905</u> | <u>65,856</u> |
| 20 Deposits | | |
| Current | 38,777 | 35,790 |
| Savings | 36,266 | 30,411 |
| At call | 51,661 | 48,172 |
| Term | 479,190 | 390,472 |
| | <u>605,894</u> | <u>504,845</u> |
| Maturity Analysis | | |
| At call | 115,809 | 104,497 |
| Up to 1 month | 208,603 | 189,762 |
| 1 to 3 months | 170,956 | 117,331 |
| 3 to 12 months | 107,586 | 92,491 |
| 12 months to 5 years | 2,940 | 764 |
| | <u>605,894</u> | <u>504,845</u> |

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
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For the year ended 31 December 2006

| | 2006 | 2005 |
|--|--------|--------|
| | \$'000 | \$'000 |
| 21 Provisions | | |
| Provision for employee entitlements | 601 | 439 |
| Number of Employees | 133 | 118 |
| 22 Other liabilities | | |
| Interest payable | 1,193 | 1,411 |
| Other | 4,532 | 2,537 |
| | 5,725 | 3,948 |
| 23 Contributed equity | | |
| 80,000,000 (2005: 70,000,000) ordinary shares fully paid, at par. | 80,000 | 70,000 |

100% of the Company's shares are owned by Marfin Popular Bank Public Co. Limited ("Laiki Bank Group") (formerly "The Cyprus Popular Bank Public Company Limited").

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the company, ordinary shareholders rank after all other shareholders. Creditors are fully entitled to any proceeds on liquidation to meet outstanding amounts owing.

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

| | 2006 | 2005 |
|--|---------|---------|
| | \$'000 | \$'000 |
| 24 Retained profits/ (accumulated losses) | | |
| Accumulated losses at beginning of year | (371) | (5,402) |
| Transition adjustment on adoption of AIFRS (Note 33 (d)) | - | 1,941 |
| Net profit after income tax | 3,882 | 3,090 |
| Transfer to general reserve for credit losses | (1,953) | - |
| Retained profits / (accumulated losses) at year-end. | 1,558 | (371) |
| 25 Reserves | | |
| General Reserve for Credit Losses | | |
| Opening Balance | - | - |
| Transfer from/(to) retained profits during the year | 1,953 | - |
| Closing Balance | 1,953 | - |

26 Financial instruments

(a) Interest rate risk

The Company enters into interest rate swap transactions to swap floating rate borrowings into fixed rates and vice versa. Maturities of swap contracts are principally between 6 months and five years.

The Company's exposure to interest rate risk and the effective weighted average interest rate of classes of financial assets and financial liabilities is set out in the following table.

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

26 Financial instruments (continued)

(a) Interest rate risk (continued)

| 2006 | Note | Weighted Average Interest Rate % | Floating Interest Rate \$'000 | Fixed interest maturing in: | | | | Total \$'000 |
|--|------|---|--|-----------------------------|--------------------------------|--------------------------------------|---------------------------------------|-----------------|
| | | | | 1 Year or less \$'000 | Over 1 to 5 Years \$'000 | More than 5 Years \$'000 | Non- Interest bearing \$'000 | |
| Financial assets | | | | | | | | |
| Cash and liquid Assets | 9 | 4.68% | 11,902 | - | - | - | 1,744 | 13,646 |
| Due from other financial institutions | 10 | 6.23% | 1,012 | - | - | - | - | 1,012 |
| Investment held to maturity | 11 | 6.12% | - | 143,685 | - | - | - | 143,685 |
| Loans and advances | 12 | 7.70% | 492,933 | 28,005 | 64,825 | 3,253 | 259 | 589,275 |
| | | | <u>505,847</u> | <u>171,690</u> | <u>64,825</u> | <u>3,253</u> | <u>2,003</u> | <u>747,618</u> |
| Financial liabilities | | | | | | | | |
| Due to other financial institutions | 19 | 6.27% | 55,453 | - | - | - | 2,452 | 57,905 |
| Deposits | 20 | 5.58% | 318,909 | 284,045 | 2,940 | - | - | 605,894 |
| | | | <u>374,362</u> | <u>284,045</u> | <u>2,940</u> | <u>-</u> | <u>2,452</u> | <u>663,799</u> |
| Interest rate swaps * | | | | 78,790 | (78,790) | | | |

* Notional principal amounts

Comparative 2005 table is set out on the next page.

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

26 Financial instruments (continued)

(a) Interest rate risk (continued)

| 2005 | Note | Weighted Average Interest Rate % | Floating Interest Rate \$'000 | Fixed interest maturing in: | | | | Total \$'000 |
|--|------|---|--|-----------------------------|-----------------------------------|-----------------------------------|---------------------------------------|-----------------|
| | | | | 1 Year or less \$'000 | Over 1 to 5 Years \$'000 | More than 5 Years \$'000 | Non- Interest bearing \$'000 | |
| Financial assets | | | | | | | | |
| Cash and liquid Assets | 9 | 3.69% | 11,632 | - | - | - | 1,528 | 13,160 |
| Due from other financial institutions | 10 | 5.78% | 16,941 | - | - | - | - | 16,941 |
| Investments held to maturity | 11 | 5.59% | - | 118,560 | - | - | - | 118,560 |
| Loans and advances | 12 | 7.14% | 406,349 | 22,325 | 61,448 | - | - | 490,122 |
| | | | <u>434,922</u> | <u>140,885</u> | <u>61,448</u> | <u>-</u> | <u>1,528</u> | <u>638,783</u> |
| Financial liabilities | | | | | | | | |
| Due to other financial institutions | 19 | 6.15% | 65,687 | - | - | - | 169 | 65,856 |
| Deposits | 20 | 5.04% | 290,102 | 213,979 | 764 | - | - | 504,845 |
| | | | <u>355,789</u> | <u>213,979</u> | <u>764</u> | <u>-</u> | <u>169</u> | <u>570,701</u> |
| Interest rate swaps * | | | | 79,200 | (79,200) | | | |

* Notional principal amounts

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

26 **Financial instruments (continued)**

(b) Foreign Exchange Risk

The company does not hold a trading book (positions created from trading activities with a speculative purpose). All positions created from the company's retail activity are actively hedged with the parent entity. The company also has foreign exchange loans, which are fully hedged through entering into foreign exchange forward agreements.

(c) Credit risk exposures

On Balance Sheet Financial instruments

The credit risk on financial assets, is the carrying amount, net of any provision for doubtful debts. The company minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties.

Off Balance Sheet Financial instruments

Credit risk on off-balance sheet swaps is minimised, as counterparties are recognised financial intermediaries with acceptable ratings determined by a recognised rating agency.

Concentration of Credit Risk

| 2006 | Derivative Assets \$,000's | Held to maturity Investments \$,000's | Loans and Advances \$,000's | Total \$,000's |
|--|----------------------------------|---|-----------------------------------|-------------------|
| Manufacturing | - | - | 20,010 | 20,010 |
| Personal, home and professionals | - | - | 245,822 | 245,822 |
| Financial, investment and insurance | 1,049 | 143,685 | 5,050 | 149,784 |
| Property and Construction | - | - | 229,774 | 229,774 |
| Trade | - | - | 52,465 | 52,465 |
| Other | - | - | 36,412 | 36,412 |
| Total | 1,049 | 143,685 | 589,533 | 734,267 |

(d) Liquidity Risk

The company is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees, and from margin and other calls in cash settled derivatives. The company maintains cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006**

26 Financial instruments (continued)

(e) Net fair values of financial assets and liabilities

The net fair value estimates were determined by the following methodologies and assumptions:

Cash and liquid assets

The carrying values of cash and liquid assets approximate their net fair values as they are short term in nature.

Due from other financial institutions

The carrying value of amounts due from other financial institutions approximate their net fair value as they are short term.

Loans and advances

The carrying value of loans and advances is net of specific provisions for impairment and suspended interest. For variable loans and loans with rates fixed for a period less than six months, the carrying amount is a reasonable estimate of net fair value. The net fair value of fixed rate loans greater than six months was calculated by discounting the future interest cash flows using a discount rate based on the current market rate for the average remaining term.

Due to other financial institutions and deposits

The carrying value of amounts due within six months to other financial institutions and other depositors approximated their net fair value. The net fair value of liabilities with a longer maturity has been determined by using the discount methodology described above.

Interest rate swaps

The net fair value of interest rate swap instruments have been determined by valuing them at the current market quoted rates.

The carrying amounts and estimated fair values of financial assets and liabilities are as follows:

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

26 Financial instruments (continued)

(e) Net fair values of financial assets and liabilities (continued)

| | 2006 | | 2005 | |
|---------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Carrying Value \$'000 | Net Fair Value \$'000 | Carrying Value \$'000 | Net Fair Value \$'000 |
| Assets | | | | |
| Cash and liquid assets | 13,646 | 13,646 | 13,160 | 13,160 |
| Due from other financial institutions | 1,012 | 1,012 | 16,941 | 16,941 |
| Investments held to maturity | 143,685 | 143,685 | 118,560 | 118,560 |
| Derivative assets | 1,049 | 1,049 | 98 | 98 |
| Loans and advances | 589,275 | 588,339 | 489,814 | 489,662 |
| Liabilities | | | | |
| Due to other financial institutions | 57,905 | 57,905 | 65,856 | 65,856 |
| Derivative liabilities | 270 | 270 | 49 | 49 |
| Deposits | 605,894 | 605,894 | 504,845 | 504,845 |

27 Commitments for expenditure

Operating leases

Future operating lease rentals not provided for and payable:

| | | |
|---|--------------|--------------|
| Not later than one year | 978 | 891 |
| Later than one year but no later than two years | 880 | 879 |
| Later than two years but no later than five years | 1,916 | 2,142 |
| Later than five years | 1,356 | 1,775 |
| | <u>5,130</u> | <u>5,687</u> |

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
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For the year ended 31 December 2006

| | 2006 | 2005 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| 28 Auditors' remuneration | | |
| Amounts received or due and receivable by the Auditors of the Company for: | | |
| Auditing the financial report | 104,800 | 112,530 |
| Taxation services | 23,261 | 43,832 |
| | <u>128,061</u> | <u>156,362</u> |

29 Commitments and contingencies

The Company has financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates.

Details of financial instruments with off-balance sheet risk are as follows:

| | 2006 | 2005 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| | Face value | Face value |
| Credit related instruments: | | |
| Letters of Guarantee given in the normal course of business | 8,895 | 7,788 |
| Commitments to extend credit | 103,309 | 72,260 |
| Derivative contracts :(notional principal) | | |
| Interest rate swaps | 78,790 | 79,200 |
| Foreign exchange forwards | <u>55,454</u> | <u>64,165</u> |

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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006**

30 Directors' remuneration

| | 2006 | 2005 |
|--|--------|--------|
| | No. | No. |
| Directors' income | | |
| The number of directors of the company whose income from the Company or related bodies corporate falls within the following bands: | | |
| \$ 0 - \$ 9,999 | 10 | 8 |
| | 2006 | 2005 |
| | \$ | \$ |
| Total income received, or due and receivable, by all directors of the company | 67,417 | 36,250 |

31 Key management personnel disclosures

Unless otherwise indicated the following were key management personnel of the Company during the reporting period:

Non-executive directors

Mr N Pappas (Appointed Chairman 28 August 2006)
Mr P G Petrou (Appointed 28 August 2006)
Mr M Louis (Appointed 28 August 2006)
Mr N T Hatzistergos (Appointed 28 August 2006)
Mr G Gav
Mr P Abraam
Mr K N Lazarides (Resigned 28 August 2006)
Mr M E Lanitis (Resigned 28 August 2006)
Ms R Rouvitha Panou (Resigned 3 November 2006)
Mr M R Erotokritos (Resigned 28 August 2006)

Executives

Mr M Athanasiou (Appointed General Manager 20 July 2006)
Mr M Michaelas (Resigned General Manager 28 July 2006)
Mr S Pasas (Head of Financial Control)
Mr A Stavrou (Head of Credit and Financial Services)
Mr P Agapiou (Head of Credit)
Mr S Hadjikyriacou (Head of Branch Network)

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**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006**

31 Key management personnel disclosures (continued)

Transactions with key management personnel

The key management personnel benefits included in staff expenses are as follows:

| | 2006 | 2005 |
|------------------------------|----------------|----------------|
| | \$ | \$ |
| Short term employee benefits | <u>893,121</u> | <u>889,484</u> |

Details of directors' remuneration are set out separately in Note 30.

Loans and other transactions to key management personnel

| | | |
|-----------------------------------|-------------------|-------------------|
| Loans to key management personnel | <u>15,170,731</u> | <u>16,561,032</u> |
|-----------------------------------|-------------------|-------------------|

For all loans to key management persons, interest is payable at prevailing market rates and are on normal commercial terms and conditions. These loans are well secured by first mortgages over the individuals' residences.

Other key management personnel transactions with the company

Key management persons of the company hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

One of these entities transacted with the Company in the reporting period. The terms and conditions of the transaction was no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis, and their related parties were as follows:

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Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
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For the year ended 31 December 2006

31 Key management personnel disclosures (continued)

| Director | Transaction | Note | 2006 | 2005 |
|-----------------|--------------------------|-------------|-------------|-------------|
| | | | \$ | \$ |
| Mr G Gav | Rental Incentive Payment | (i) | - | 259,000 |

(i) The company moved to a new head office location in October 2005 and entered into a 10 year lease agreement with an entity related to Mr G Gav. As part of this transaction, the company was paid an incentive payment and provided with a rent free period of 13 months. This transaction was entered into on normal terms and conditions.

32 Related parties transactions

(a) Transactions within the wholly-owned group

During the financial year the company engaged in banking transactions with Marfin Popular Bank Public Co. Ltd, and its wholly owned subsidiaries. All transactions were on normal terms and conditions.

(b) Transactions with other related parties

During the period the company engaged in banking transactions with associated companies of Marfin Popular Bank Public Co. Ltd. All transactions were on normal commercial terms and conditions.

(c) Parent entity

The parent entity of Laiki Bank (Australia) Limited is Marfin Popular Bank Public Co. Ltd, a company incorporated in Cyprus.

33 Financial reporting by segments

The company does not have any separately reportable segments. The company provides retail and commercial banking facilities within the financial services industry in Australia.

CONFIDENTIAL

Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006

34 Notes to the statements of cash flows

(a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand, cash at bank and short term deposits at call. Cash as at the end of the period as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

| | 2006 | 2005 |
|---------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Cash | 13,646 | 13,160 |
| At call deposits | 1,012 | 16,941 |
| Total Cash and cash equivalents | <u>14,658</u> | <u>30,101</u> |

(b) Reconciliation of profit from ordinary activities after income tax to net cash used in operating activities

| | 2006 | 2005 |
|---|-----------------|--------------|
| | \$'000 | \$'000 |
| Profit from ordinary activities after income tax | 3,882 | 3,090 |
| Add: non-cash items: | | |
| Depreciation of non-current assets | 1,172 | 1,240 |
| Increase in provision for doubtful debts | 3 | 66 |
| Increase in provision for employee entitlements | 162 | 106 |
| Increase in tax provision | 846 | 6 |
| Net Increase in prepayments/accruals | 218 | (408) |
| Book profit on sale of plant and equipment | 9 | (2) |
| Increase in derivative financial instruments | (730) | - |
| <i>Increases/(decreases) in assets and liabilities:</i> | | |
| Investments held to maturity | (25,125) | 2,760 |
| Loans and advances | (99,464) | (89,143) |
| Derivative financial assets | - | (61) |
| Other assets | (111) | (222) |
| Due to other financial institutions | (7,951) | (11,692) |
| Deposits | 101,049 | 99,448 |
| Other liabilities | 1,852 | 1,735 |
| Net cash used in operating activities | <u>(24,188)</u> | <u>6,923</u> |

**Bank of Sydney Ltd (formerly Laiki Bank (Australia) Ltd)
Notes to and forming part of the financial report (continued)
For the year ended 31 December 2006**

34 Notes to the statements of cash flows (continued)

(c) Net reporting of certain cash flows

Cash flows arising from the following activities have been presented on a net basis in the statements of cash flows:

- (i) money market trading activities and retail lending activities;
- (ii) customer deposits to and withdrawals from savings, money market and other deposit accounts; and
- (iii) balances due to and from other financial institutions.

(d) Financing facilities

Financing arrangements which are available to the group:

| | | |
|--|---|--------------|
| Standby credit facilities with related parties | - | <u>4,088</u> |
|--|---|--------------|

At year-end the above facilities were unutilised.

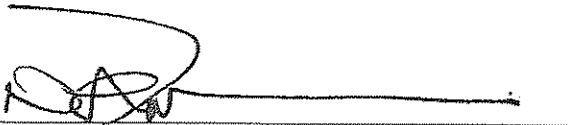
Laiki Bank (Australia) Limited

Directors' declaration

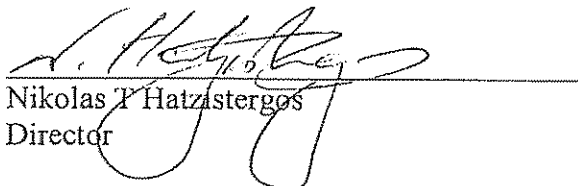
In the opinion of the directors of Laiki Bank (Australia) Limited:

1. The financial statements and notes, set out on pages 7 to 44, are in accordance with the Corporation Act 2001, including:
 - (a) giving a true and fair view of the financial position of the company as at 31 December 2006 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.
2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Nicholas Pappas
Director



Nikolas T Hatzistergos
Director

Dated at Sydney this 11 day of April 2007.

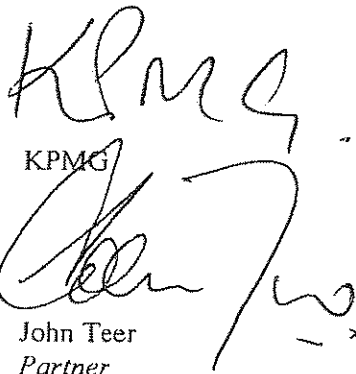


Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Laiki Bank (Australia) Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2006 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.


KPMG
John Teer
Partner

Sydney

11 April 2007



Independent audit report to the members of Laiki Bank (Australia) Limited

Scope

We have audited the financial report of Laiki Bank (Australia) Limited ("the Company") for the financial year ended 31 December 2006, consisting of the income statement, statement of changes in equity, balance sheet, statement of cash flow, accompanying notes 1 to 34, and the directors' declaration set out on pages 7 to 45. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

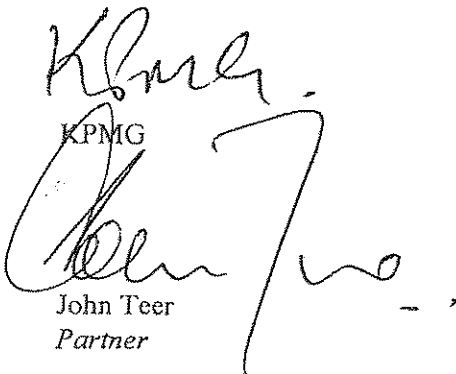
Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of Laiki Bank (Australia) Limited is in accordance with:

- a) the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's financial position as at 31 December 2006 and of its performance for the financial year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.


KPMG
John Teer
Partner

Sydney

11 April 2007



Bank of Sydney

Level 4, 219-223 Castlereagh Street
Sydney NSW Australia